

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MEETING OF THE BOARD OF DIRECTORS
May 25, 2011**

MINUTES

Present:

Treasurer Young Boozer, Chair
Dr. Greg Fitch
Ms. Karen Gandy
Mr. Marc Green
General Paul Hankins, Vice Chair
Ms. Patti Lambert
Dr. William Meehan
Mr. Jimmy Stubbs
Mr. Mark Sullivan

Absent:

Ms. Gwen Appling
Sen. Roger Bedford
Rep. Craig Ford
Chancellor Freida Hill
Dr. Richard Huckaby
Mr. David Perry

Others present include:

Ms. Glenda Allred, Deputy Treasurer
Ms. Daria Story, Assistant Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. George Beck, Capell & Howard
Mr. Chad Bryan, Capell & Howard
Mr. Bud Pellecchia, Callan Associates
Mr. Matt Bledsoe, Attorney General's Office

Agenda Item 1.

Pursuant to written and public notice, the quarterly meeting of the Board of Directors of the PACT Program was held in the Board Room of the RSA Headquarters on May 25, 2011. The meeting was called to order by Chairman Young Boozer at 1:05 p.m. Roll was taken with a quorum present.

Agenda Item 2.

Chairman Boozer presented the minutes of the May 4, 2011, board meeting. A motion was made by Mr. Stubbs, seconded by Mr. Sullivan for approval as presented. The motion was unanimously approved.

Agenda Item 3. (A.)

Chairman Boozer asked Ms. Emfinger for a program report. Ms. Emfinger began by discussing PACT contract cancellations, noting that there had been no significant increase since the Settlement Agreement had been made public. She then provided information to the Board that had been posted on the website to assist purchasers in understanding the agreement and the process for objecting to the agreement. She also informed the Board that notice of the settlement hearing scheduled for June 20, 2011, had been mailed to all PACT purchasers.

Agenda Item 3. (B.)

Bud Pellecchia gave the quarterly investment report. Mr. Pellecchia began with the Executive Summary stating that the program had assets of \$437,373,000 at the end of March following earnings of \$9.5 million and liquidation of \$32,431,000 in assets to pay benefits. The fund had a return of 2.1% for the quarter against the index of 1.41% and a yearly return of 7.95% verses the index of 7.04%.

He then reviewed the capital markets. He discussed the positive equity returns with an opinion that equity returns would be declining in the next several years compared to the last two years.

Beginning with the equity indexed manager Rhumblin, Mr. Pellecchia discussed performance. He stated that Rhumblin's return of 6.33% was in line with the index of 6.38%.

Principal, the international equity manager, with a return of 2.51%, underperformed the index which returned 3.41%. He stated that the underperformance was due to investments in Europe.

Longfellow, the fixed intermediate manager had their first full quarter with the fund and had a return of .8% vs. the index of .37. MacKay Shields, the fixed income manager with two portfolios had a return of .78% on the intermediate portfolio vs. the index of .37%, and the core plus portfolio had a return of 2.06% against the index return of .42%.

Mr. Pellecchia then presented information on asset allocation, expressing his concern about risk, based on capital market projections and the short investment time horizon of the fund. He discussed with the Board an accelerated schedule for reducing equity exposure and shortening the duration on the fixed income assets; and presented the following strategies for consideration: an accelerated roll down equity; 100% defensive; roll down fixed, no aggregate; and roll down fixed with aggregate. The Board discussed the various allocations with a consensus that risk be mitigated as much as possible. Mr. Pellecchia was asked for his recommendation and he stated that he believed that the roll down fixed, no aggregate would be the best allocation to mitigate risk. A motion was then made by Dr. Meehan, seconded by General Hankins for approval of the allocation. The motion unanimously carried. The two equity managers, Rhumblin and Principal, will be notified of termination of their investment contract due to the reallocation of assets. It was suggested that the equities be liquidated as soon as possible. Mr. Pellecchia advised he will contact Longfellow and MacKay Shields to invest the additional monies in a short-term duration portfolio. Investment guidelines will be provided to the fixed income managers for the short-term portfolio, and these will be presented to the Board at the next meeting for review and any revisions. However, investment of the monies by Longfellow and MacKay Shields will be allowed under the draft guidelines until final approval by the board at its next regular meeting.

Mr. Pellecchia then presented minor revisions to the fixed income Investment Guidelines. The requested revisions are attached for reference. A motion was made by Dr. Meehan for approval. The motion was seconded by General Hankins with unanimous approval.

Ms. Lambert asked the Chair about cash flow for benefit payments. Mr. Boozer informed the Board that he had met with leaders in the House and Senate to discuss the need for legislative revisions next year in accordance with the settlement agreement if approved by the Court, to reformat board terms, and to redirect the allocation of the funds from the Education Trust Fund. He stated that they understood the need to revise the statute and they expressed willingness to

do so during the next session. He explained that if the settlement was approved, PACT would be able to project the cash flow needs and this would be addressed in the legislation.

Agenda Item 3. (C.)

Chairman Boozer presented the results of the March 31 quarterly valuation. He explained that after the last meeting where actuarial assumptions were adopted in line with the Settlement Agreement, Dan Sherman performed the valuation and as expected, the Trust Fund is fully funded. A motion was made by Dr. Meehan, seconded by Mr. Sullivan for acceptance of the report. The motion was unanimously approved.

Agenda Item 3. (D.)

Chairman Boozer then asked Mr. George Beck for the legal status report. Mr. Beck informed the board that the Court had entered an order for preliminary approval of the Settlement Agreement and that a hearing had been scheduled for June 20. He further explained that notice had been given and to date, six objections had been received. He then discussed the timeline for the agreement to be considered by the Court.

Agenda Item 4.

Chairman Boozer then discussed with the board the Request for Proposal for consulting services. He stated that proposals were received from Buck Consultants, Callahan Financial Solutions, Callan Associates, Dahab Associates, Morgan Stanley Smith Barney and VTL Associates. He explained that Callahan did not meet the requirements and Morgan Stanley and VTL were eliminated because of high fees. A summary of the responses was reviewed by the Board. After discussion, a motion was made by Mr. Stubbs and seconded by Dr. Meehan to retain Callan, the current consultant. Ms. Lambert asked if the fees could be reduced based on the new asset allocation. After discussion, it was the consensus of the Board to have staff request additional information from Buck, Callan and Dahab due to the revised asset allocation. The RFP committee would review the responses and present a recommendation to the Board at the August meeting. Mr. Stubbs withdrew his motion.

All reports are attached for reference.

There being no further business, a motion was made by Dr. Meehan and seconded by Vice Chair Hankins to adjourn. The meeting was adjourned at 2:10 p.m.

Brenda Emfinger, Recording Secretary

Young Boozer, Chair